South Carolina Board of Economic Advisors
Statement of Estimated State Revenue Impact

Date: May 22, 2008 (As amended April 29, 2008 by the House of Representatives)

Bill Number: H.B. 4672

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Committee Requesting Impact: Senate Finance Committee

Bill Summary
A bill to amend Section 12-36-2120, as amended, of the Code of Laws of South Carolina, 1976, relating to sales tax exemptions, so as to move forward from July 1, 2011, to July 1, 2008, the exemption allowed for construction materials used in the construction or expansion of a manufacturing or distribution facility and to reduce from one hundred million to fifty million dollars the minimum investment required to receive the exemption; to amend Act 384 of 2006, relating to miscellaneous revenue provisions, so as to conform a phase-in provision for the construction materials sales tax exemption amendment in this Act; and to amend Section 12-43-220, as amended, relating to the classification of property and applicable assessment ratios for purposes of the property tax, so as to revise the definition of manufacturing property with respect to warehousing and distribution facilities owned or leased by a manufacturer.

REVENUE IMPACT [1/]
This bill, as amended, would reduce sales and use tax revenue by an estimated $25,312,000 in FY2008-09. Of this amount, General Fund sales and use tax revenue would be reduced by $16,874,666, EIA funds would be reduced by $4,218,667, and homestead exemption funds would be reduced by $4,218,667 in FY2008-09. This bill would reduce local property tax revenues by $2,600,000 in FY2008-09 and shift it to other classes of property to the extent allowed by the millage caps.

Explanation of Amendment (April 29, 2008) – By the House of Representatives
Section 11. This section would allow real property of manufacturers used exclusively for warehousing and wholesale distribution to become subject to a 6.0 percent assessment ratio instead of a 10.5 percent assessment ratio. In the original language the property could have been used primarily for warehousing and wholesale distribution. This amendment also delays the lower assessment ratio becoming applicable until the year after the next countywide reassessment is implemented. Extending the 6.0 percent assessment ratio to this property the year after reassessment is implemented is expected to reduce local property tax revenues by less than $1,000,000 over the five year reassessment cycle.

Section 12. This section provides that a manufacturer is not required to return personal property for *ad valorem* tax purposes if the property remains in South Carolina but has not been used in operations for one fiscal year. Under current law, if property is depreciated for income tax purposes, it must show up on the property return. Officials with the Department of Revenue could not readily identify any specific cases where this new exemption would apply but stated there could be some instances now or in the future. Some of the county auditors we spoke with stated this bill could reduce their property tax revenues slightly. They also expressed concern that if a plant had not been operational during the entire preceding year but became operational in February or March of the following year the property may not be taxable that year either because it was not in use as of December 31^{st} of the preceding tax year. Based on conversations with local tax officials, we project this bill could decrease local property tax revenues by an estimated $1,600,000 in FY2008-09.

Explanation of Amendment (April 17, 2008) – By the House Ways & Means Committee
Section 1. This section further amends Section 12-36-2120(67) by adding subitem (b) to exempt construction materials used in the construction of a new or expanded office facility used by a corporate headquarters. According to the S.C. Department of Commerce, one corporate office building meeting the required qualifications of an enhanced investment pursuant to Section 12-44-30(7) and (13) and estimated at $150,000,000 is scheduled for construction beginning in July 2008. An estimated forty percent of total construction expenditures are for construction materials. Multiplying a $150,000,000 corporate office facility by construction material costs of forty percent and applying a sales tax rate of six percent yields a reduction of sales and use tax revenue of an estimated $3,600,000 in FY2008-09. Of this amount, General Fund sales and use tax revenue would be reduced by $2,400,000, EIA funds would be reduced by $600,000 and homestead exemption funds would be reduced by $600,000 in FY2008-09.

Section 12. This section adds a severability clause to specify that if any part of this act is held to be unconstitutional or invalid for any reason, this shall not affect the constitutionality or validity of the remaining portions of this act.

Section 13. Except as otherwise stated, this act takes effect upon approval by the Governor.

Explanation of Bill filed February 12, 2008
Section 1. This section amends Section 12-36-2120(67) by moving the effective date from July 1, 2011 to July 1, 2008 for the full sales tax exemption of construction materials used in the construction or expansion of a manufacturing or distribution facility. Currently, in FY2007-08, the sales tax rate on the gross proceeds of construction materials used in the construction of a single manufacturing and/or distribution facility is four percent. According to data from the SC Department of Commerce, a total annual average of $817,000,000 in capital investment was made by manufacturing and distribution facilities in the state between calendar years 2005 and 2007. An estimated forty percent of total construction expenditures are for construction materials. Multiplying an average of $817,000,000 in capital investment projects per year by construction material costs of forty percent and applying a sales tax rate of four percent yields a reduction of sales and use tax revenue of an estimated $13,072,000 in FY2008-09. This section also reduces the minimum capital investment requirement for the construction materials sales tax exemption from one hundred million to fifty million dollars. According to data from the S.C. Department of Commerce, manufacturing and distribution facility projects investing between $50,000,000 and $100,000,000 in the state invested a total annual average of $360,000,000 in capital between 2005 and 2007. An estimated forty percent of total construction expenditures are for construction materials. Multiplying an

average of $360,000,000 in capital investment projects per year by construction material costs of forty percent and applying a sales and use tax rate of six percent yields a reduction of sales and use tax revenue of an estimated $8,640,000 in FY2008-09. In total, this section is expected to reduce state sales and use tax by an estimated $21,712,000 in FY2008-09. Of this amount, General Fund sales and use tax revenue would be reduced by $14,474,666, EIA funds would be reduced by $3,618,667, and homestead exemption funds would be reduced by $3,618,667 in FY2008-09.

Section 2. This section would allow real property of manufacturers used primarily for warehousing and wholesale distribution to become subject to a 6.0 percent assessment ratio instead of a 10.5 percent assessment ratio. Under current law, this only applied to clothing and wearing apparel and property not located on the premises or contiguous to the manufacturer. Extending the 6.0 percent assessment ratio to this property will decrease local property tax revenues by $12,700,000 in FY2008-09 and shift it to other classes of property to the extent allowed by the millage caps.

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[1/] This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.